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FOCUS

Regional chains succeed at home

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Hyatt execs get in to... with daily operation

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BEER WINE & SPIRITS

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Mort Hochstein/Page 121

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NEWSPAPER

SECOND CLASS

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The Weekly Newspaper of the Food-Service Industry

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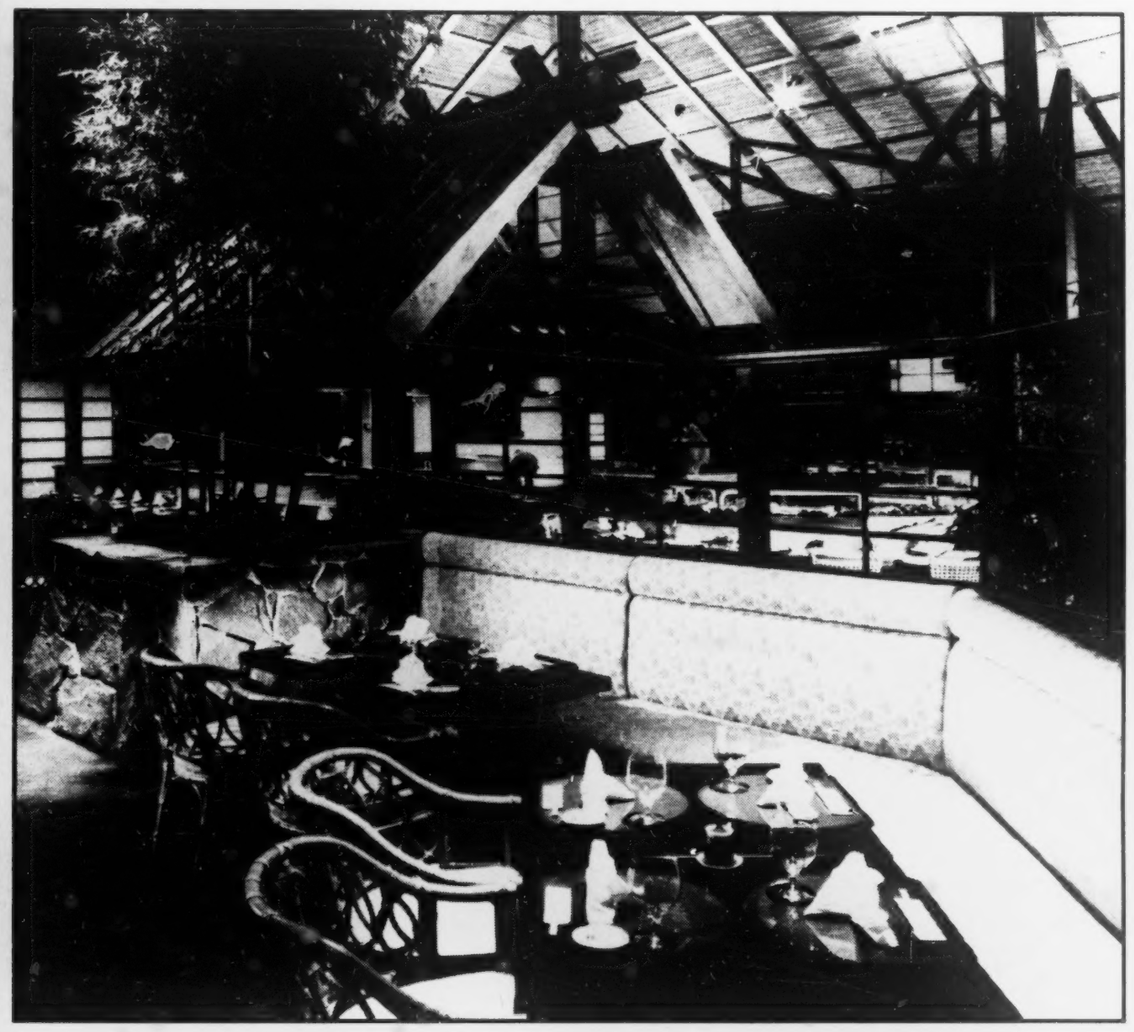

The interior of Otani — A Garden Restaurant resembles a shogun's palace.

The Far East meets the West Coast at Otani

By Richard Martin

PALM SPRINGS, Calif. — The New Otani America Corp., a division of the Tokyo-based New Otani Co. hotel group, has launched its first free-standing Japanese restaurant here as a role model for a proposed nationwide fine-dining chain.

Otani — A Garden Restaurant, opposite the Palm Springs Convention Center, seats 200 guests amid lush, indoor gardens dramatized by a waterfall and a brook.

Resembling a shogun's palace that's been set in the desert beside ponds and streams, the 7,000-square-foot restaurant cost nearly $2.3 million to open.

*(See **OTANI**, page 139)*

KFC franchisees to fund war chest

Pepsico contract proposal rejected

By Milford Prewitt

LOUISVILLE, Ky. — Kentucky Fried Chicken's franchisees have pledged to raise $3.6 million for potential legal expenses in case they go to court to fight for modifications in the company's proposed standard franchisee contract.

Four hundred franchisees convening in Louisville unanimously voted by a show of hands to start a war fund moments after voting to oppose the company's version of the new standard franchisee agreement, which will cover 1989 and beyond.

The company and the franchisees are poles apart on several major contract issues ever since negotiations for a new agreement began in February. A meeting planned this week in Louisville will be the first time the two sides have met since Sept. 11.

Licensees said the vote symbolizes the suspicion they share regarding KFC and its parent, Pepsico. Veteran franchisees said they could not recall a time when their relationship with Louisville was as tense or strained as it has been during the current contract discussion.

"We hope this does not reach a crisis level," said Darlene Pfeiffer, an ex-president of the KFC franchisee association and a member of a committee working on the contract. "We want to reach a negotiated settlement that is not dictated to us and reinforces the spirit of cooperation that has been the hallmark of our relationship and made us No. 1 in the segment.

"We're raising the money in case it becomes necessary to fight the contract."

"It's a very sad thing that this is happening," said Gregg Reynolds, a spokesman for KFC. "It's better that this money be spent on stores rather than in court."

Bob Peck, president of the Association of Kentucky Fried Chicken Franchisees, which represents all but 100 of the system's 650 franchisees,

*(See **KFC**, page 139)*

The company and the franchisees are poles apart on several major contract issues.

Trade groups battle bar code resistance

By Peter Romeo

WASHINGTON — Several major trade associations are trying to foment a revolution in food-service inventory control by prodding manufacturers and distributors to put scannable, computer-coded labels on restaurant supplies.

Use of the universal product code — the bar code imprinted on virtually all packaged grocery items — would trim restaurants' labor costs, curb employee pilferage and enhance product freshness, according to proponents.

"The biggest advantage would be the ability to accurately check in [distributor-delivered] merchandise without the manual labor usually entailed," said Ron

*(See **BAR CODE**, page 139)*

FOODWATCH

Catfish sausage

LACOMBE, La. — Forty-five minutes outside New Orleans in this small bayou town, Chris Kerageorgiou of La Provence is giving traditional French provincial food a twist with a catfish sausage that makes a fluffy low-fat appetizer.

He mixes 4 pounds of cold, fresh, pond-raised catfish with two red and two green bell peppers, an onion and garlic and parsley. But the secret may be in the spicing. He uses a whole jalapeño pepper and a mixture of Moroccan-style spices including peppermint, cumin seed, anise and chilies.

— Rick Telberg

Western Sizzlin unveils new ads

By Bill Carlino

DALLAS — Western Sizzlin, with the premiere of its first national TV advertising campaign, is capping a year of whirlwind change aimed at making the 530-unit chain a major player in the budget steak-house segment.

The campaign was previewed by about 250 franchisees who attended Western Sizzlin's annual convention here. The licensees feel that the synergy created by the long-awaited media exposure and the chain's new corporate management can elevate Western Sizzlin to a leader's status among midpriced restaurants.

"I think we've got the best corporate team and more

*(See **WESTERN SIZZLIN**, page 4)*

CHARLES BERNSTEIN ON WHAT'S BEHIND THE CH. 11 SURGE — Page F3

WHEN SHOULD YOU 'COMP' A MEAL?

Robert E. Farrell, of the Newport Bay Restaurant in Portland, Ore., in a letter to the editor last week raised the question of giving away free meals to satisfy disgruntled customers. He was seeking industry comment for a much-debated topic.

What guidelines do you use in 'comping' meals?

This is your chance to sound off.

Call the Nation's Restaurant News Hot Line, toll-free, 24 hours a day all this week.

A recorded message will ask for your opinion. Please leave your name, company and phone number so that an NRN reporter can confirm your statement for publication.

Watch for a full report in an upcoming issue.

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NEWS DIGEST

Restaurants Unltd. agrees to sell stake to Jacobs

SEATTLE — Restaurants Unlimited, operator of 20 full-service restaurants in seven states and owner or franchiser of 120 Cinnabon bakeries nationwide, has agreed to sell a majority interest in the company to E.S. Jacobs & Co., a New York investment firm headed by acquisition specialist Eli S. Jacobs.

Restaurants Unlimited's current management team would be retained and would hold a "significant" share of the company's stock if the agreement is finalized, officials of the privately held Seattle-based concern said. Terms of the deal were not disclosed.

Jacobs, whose many titles include chairman of Memorex Telex Corp. and owner of the Baltimore Orioles professional baseball team, is no stranger to the restaurant industry: He is a co-founder and the largest shareholder of the struggling Le Peep chain.

Restaurants Unlimited's concepts include Cutters Bayhouse, Horatio's and Kincaid's.

Mass. balks at repeal of mandated benefits

BOSTON — In a setback for Massachusetts' food-service industry, the House has thwarted an effort to repeal the state's mandated-benefits plan, which will require employers of more than six people to provide each with health insurance worth $1,680.

However, enactment of the provision was postponed for a year, to 1993. The delay provides Massachusetts' restaurant industry with additional time to choreograph a repeal attempt.

In July the House had tentatively agreed to overturn the insurance obligation, which opponents said would cost employers more than $400 million per year.

Former Ryan's chief McCall takes reins of Mr. Gatti's

AUSTIN, Texas — Mark McCall, who guided Ryan's Family Steak Houses' rise to stardom in the mid-1980s, has taken the helm of Mr. Gatti's, the 300-unit pizza chain based here.

McCall has assumed the titles of president and chief executive from Mr. Gatti's owner and chairman, L.D. Brinkman. He had held the posts since Gary Lomax moved to the rival Pantera's chain in mid-1988. McCall reports to Brinkman.

During the Citadel graduate's tenure as president of Ryan's, the chain routinely posted head-turning per-unit sales gains. McCall resigned the job last year when the steak-house system's sales began to cool.

Primo's delivery business sold to Colorado investors

FAYETTEVILE, Ga. — A newly formed Colorado investment company said it has agreed to buy Primo's Inc., operator of the Primo's Pizza & Sub delivery chain here, for an undisclosed amount.

Nassau Development Corp., based in Englewood, Colo., indicated that it would accelerate the system's franchising program. Currently 28 of the 35 Primo's units are franchised.

City duo turning brew-pub into Border Grill branch

SANTA MONICA, Calif. — Chefs Susan Feniger and Mary Sue Milliken, co-owners of the popular City and Border Grill restaurants in Los Angeles, have acquired the shuttered City of Angels brew-pub here to convert it to their second Border Grill.

Stripped of its beer-making gear and re-opened by mid-January, the 120-seat regional-Mexican restaurant would place "much more emphasis on a 'cantina' feel" than was possible at the tiny Melrose Avenue prototype, general manager John Papsidera said.

As consultants, Feniger and Milliken devised the defunct brew-pub's first menu in 1987.

Wendy's rolls new burger as part of 'Value' menu

DUBLIN, Ohio — Wendy's has included a new down-sized sandwich — the junior bacon cheeseburger — on a just-rolled "Super Value" menu of items priced at 99 cents each.

Also included on the promotional bill of fare are extra-large portions — called Biggie orders — of french fries. Biggie drinks are also available.

The value-oriented menu is pitted against Burger King's 99-cent daily specials and a variety of discounted specials from other fast feeders. In some markets, McDonald's has slashed the price of its hamburgers to 49 cents.

Melman's LEYE unveils new Italian restaurant

CHICAGO — Lettuce Entertain You Enterprises, Richard Melman's stable of such popular local restaurants as Ed Debevic's and Mexican Hat Dance, is opening an Italian restaurant here called Tucci Milan.

The unveiling marks the group's second restaurant opening in six weeks, right on the heels of Bub City, a outhern barbecue and crabshack restaurant with a Texas-themed bar.

LEYE's other Italian restaurants are Avanzare, Scoozi and Tucci Benucch, all in Chicago.

McD's headquarters staff takes unit jobs for a day

OAK BROOK, Ill. — Employees and affiliates of McDonald's Corp. — including about 2,000 headquarters personnel here, company suppliers and advertising agency executives — celebrated "Founder's Day" by heading to work behind the counters of McDonald's almost 11,000 units worldwide.

McDonald's, the world's largest restaurant company, commemorates the birthday of founder Ray Kroc each year on the first Friday of October.

"The purpose is to get back to the basics of our business, and the basics are working with customers and delivering quality, service, cleanliness and value," said a McDonald's spokeswoman.

Copeland details cuts, menu changes for Church's

NEW ORLEANS — Al Copeland Enterprises Inc., a new name for a familiar operator, has revealed plans to sell 203 Church's Fried Chicken units to its franchisees and to shutter another 227 outlets in a bid to reduce debt of $449 million.

Remaining Church's units will be revamped to conceal kitchen areas and will adopt a new Southern-styled fried chicken and biscuit, according to documents filed by the company.

At the same time, Copeland's Popeyes chain is looking to secure a firm hold on the high-end portion of the quick-service chicken market by relying more heavily on regional products. The chain is also experimenting with a new diner-like format.

In a government filing, the normally secretive but much watched company — formerly known as A. Copeland Entrprises — outlined plans to raise about $448 million through the sale and mortgaging of units and the issuance of $110 million in bonds. The transactions would pare the 1,470-unit Church's system to 809 stores.

Bill Marriott recovering from 'mild' heart attack

WASHINGTON — J.W. "Bill" Marriott, Jr., chairman and president of Marriott Corp., is recovering from a heart attack that seized the 57-year-old lodging scion en route to a business meeting.

Marriott officials described the attack as "mild" and predicted a rapid recovery for the executive. "His spirits are good," brother and Marriott vice-chairman Richard Marriott told the Dow Jones News Service.

FINANCIAL NEWS

Shoney's takes first step in nationwide growth effort

By Rajan Chaudhry

NASHVILLE, Tenn. — Shoney's Inc. has passed the initial milestone in its plan to expand nationally through franchising with its first West Coast development agreement.

The contract calls for 23 Shoney's family-style restaurants to be built in the Sacramento, Calif., area over the next 18 years.

Shoney's, whose operations have thus far been confined to the South and the Midwest, outlined its intentions to turn its focus toward franchising and national growth as part of its recapitalization strategy last year.

Shoney's — whose operations include the Shoney's dinnerhouse, Lee's Famous Recipe Chicken and Captain D's restaurant chains — is also working on agreements in Northeastern United States, primarily Pennsylvania and New York, said Jeff Heston, Shoney's executive director for franchise development.

And the company is negotiating master franchise agreements — which give licensees

Jeff Heston

the right to subfranchise within their area — for Japan, several other Pacific Rim countries and Canada.

Besides Sacramento, Shoney's newest agreement covers Yolo, Placer, Solano, El Dorado and Nevada counties.

The first restaurant is slated to open in spring 1990, Heston said.

Shoney's Sacramento franchisee, Alpha West Inc., is headed by Rudy Ruark, a Nashville venture capitalist. And Creed Branson, a former Pizza Hut operator and area manager, will operate the restaurants.

Many of the new Shoney's units will be located along highways, Heston said.

About six years ago Shoney's began looking to high-traffic sites along interstate highways to support its new restaurants. And whenever possible, the company pairs its roadside restaurants with a Shoney's Inn, usually under separate management.

Shoney's would like to follow the same strategy in the well-traveled Sacramento area, said Heston, although the company is also exploring the option of combining concepts, as Marriott Corp. does with its Travel Plazas.

A Shoney's restaurant next to a hotel averages sales 25 percent higher than the annual volume — about $1.5 million — generated by a lone unit, Heston said.

The average cost of a Shoney's in 1988 included about $300,000 for land, $410,000 for the building and $245,000 for equipment and signage, Heston said.

Perkins introduces 401K plan in bid to attract non-salaried help

By Milford Prewitt

MEMPHIS — Perkins Family Restaurants has launched a 401K retirement plan for hourly employees in a determined bid to recruit and retain non-salaried workers.

Norman Hill, director of human resources for the 115-unit company, said although 401K plans for hourly workers have been administrative nightmares at some companies, Perkins is moving ahead with the belief that a 401K is an attractive lure for recruiting and retaining the rank and file worker.

He said the pressure to recruit and retain cooks, bus persons, and servers will intensify in the wake of the company's aggressive expansion plans. Like other chains in the segment, Hill said Perkins had been battered by a 150 percent turnover rate among hourly employees.

401K is an attractive lure for recruiting the rank and file worker.

"We want to include the hourly employee in the growth of the company and the 401 maybe one of those things that bring people into the company and stay longer," he said. "We feel this is the kind of thing we need to have if we intend to be there in the future."

In the formula at Perkins, the company will match 50 percent of an employee's contribution up to 6 percent of base. Employees can invest as much as 10 percent of their gross pay, but 4 percent will be unmatched, Hill said.

Participants will be 60 percent vested after 3 years, 80 percent after 4 years, and fully vested after 5.

FOOD PRICE OUTLOOK

World coffee prices remain low

The brief run-up in **green coffee** prices has foundered in the strong probability that the International Coffee Organization isn't going to be able to restore quotas soon. Roasters are buying conservatively, and the price of green beans has dropped back into the upper 70-cents-per-pound range on the New York docks. With the danger of frost over in Brazil, it appears there will be a good crop, with a better supply of higher grades than last season's. Other countries are also reporting strong crops. Expect further price drops this year.

Frozen-cod production is down, but **halibut, haddock, ocean perch, clams** and **flounder** are up so far this year. **King crab** freezings are also up by about 25 percent over last year's, but **snow crab** production is down by 30 percent. Expect higher cod prices if the falloff in imports continues.

Government commitments of **pork bellies** to Poland didn't turn out as large as many traders had anticipated. So futures prices dropped. But despite the large inventory of bellies in storage at the beginning of summer, domestic cash prices have been running about the same as last year's, and the price of bacon (which is made from pork bellies) remains stable. In fact, the pork belly inventory is being worked off faster than was forecast, and there's even a chance that bacon prices will rise by midwinter.

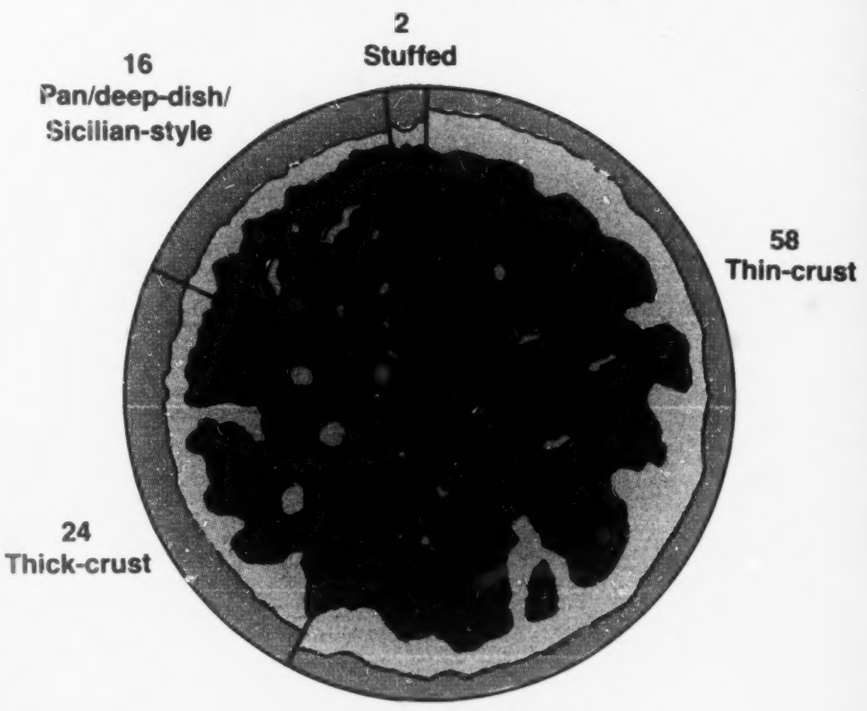
The Midwest **corn** crop may not be so plentiful as expected. A fungus infection, aflatoxin, apparently is back this year, after having hit the drought-ridden crop in 1988. The Food and Drug Administration considers a level of 20 parts per billion of aflatoxin harmful to humans. It has caused cancer in laboratory rats. If this year's outbreak is widespread, removal of affected corn from the market could drive up prices of animal feed and eventually those of beef, pork and poultry.

FACT FILE

A look at the statistics shaping the industry

THIN-CRUST PIZZA TAKES BIGGEST SLICE

(percent of total pizza orders by type)



Source: NPD Annual Household Report, 1988

NRN FINANCIAL DIGEST

McDonald's teams with Toys 'R' Us

OAK BROOK, Ill. — McDonald's Co. Ltd. of Japan, which is a joint venture of McDonald's Corp. based here and Japanese trading company Fujita & Co., has signed an agreement with Toys "R" Us to open up to 100 Toys "R" Us retail toy stores in Japan.

The two children's market mammoths plan to open four to six toy stores in 1991.

Under terms of the agreement, McDonald's will own 20 percent of stores with an option to operate restaurants on-site. Rochelle, N.J.-based Toys "R" Us will own the remaining 80 percent.

McDonald's Co. of Japan already operates 675 units.

McDonald's said that it is providing only its site selection experience and that it will not participate in the management of the toy outlets.

Wendy's to sell land at headquarters

COLUMBUS, Ohio — Wendy's International is looking to raise money by selling 17 acres of its 30-acre headquarters site and leasing 20,000 square feet of unused space in its main building.

The company did not disclose the asking price for the 17-acre parcel, but it did say it would lease the office space for about $12 a square foot.

Wendy's moved into its headquarters here in 1976.

Ramada restructuring stalled

PHOENIX, Ariz. — Ramada Inc. said recent volatility in the high-yield credit market has postponed the company's restructuring and forced it to consider changing the terms and types of securities to be offered by Aztar Corp., the new company that will operate Ramada's gaming business.

Ramada had planned a $400 million junk bond offering to finance Aztar.

The restructuring is part of an agreement, struck in April, calling for Ramada to sell its 825-property hotel operation for $540 million to Hong Kong real-estate firm New World Development Co. Ltd. and Prime Motor Inns Inc.

MGM buys site for movie park

BEVERLY HILLS, Calif — MGM Grand Inc. said it has agreed to buy a 700-room hotel and casino and 115 acres on the Las Vegas, Nev., strip for the location of a movie theme park and a 5,000-room MGM Grand Hotel and Casino.

Plans for the project are not complete, but the company estimated the total cost at more than $600 million. It also said the operation will employ 7,000 people year-round.

The hotel is scheduled to open in 1992. However, the theme park will take longer, the company said.

A similar movie park, built at Walt Disney World in Orlando, Fla., has been so successful that competitor Disney plans to double the operation's size.

FOCUS | OPINION

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What is behind the Ch. 11 surge?

Editor's Corner
Charles Bernstein

Reorganizations and bankruptcies are proliferating as food-service operators face an increasingly tough environment. Unfortunately, this cycle of a mature industry is likely to continue or even intensify.

Of course, one solution for any besieged operator is to be acquired by a financially strong corporation that can bail it out — at least temporarily. But this is rarely worth the price or the effort.

A number of the Chapter 11 filings, where the operator seeks protection from creditors and does not necessarily go out of business, were disasters waiting to happen. They involved operators that had overextended themselves financially, in too rapid an expansion or in a loss of focus.

As of presstime, the latest Chapter 11 filings were by Dallas-based Pantera's and New York-based Bombay Palace Restaurants. Each situation illustrates the severe challenges facing diversified companies.

Pantera Corp., which had operated some 50 Pantera's Pizza units from St. Louis, moved to Dallas when it acquired the 650-unit Pizza Inn chain in 1987. Pizza Inn had gone through ups and downs under Joseph Spillman for years, and Pantera's took on more than it could handle. It obtained an apparent bargain price of $48 million to buy Pizza Inn, but the task of trying to operate that chain proved formidable.

The seeds of Bombay Palace's downfall were sewn when the chain of Indian dinner houses and Zona Rosa Mexican restaurants reached out to acquire 49 Beefsteak Charlie's restaurants from Larry Ellman's Lifestyle Restaurants. Trying to operate the units proved more overwhelming than had been envisioned, and Bombay eventually had to close 15 Beefsteak Charlie restaurants.

We hope Al Copeland is listening in New Orleans to these signals. Has he bitten off more than he can chew by acquiring Church's on top of his own Popeyes units? He has been known to perform miracles in the past, and perhaps he can do it this time.

In any case he certainly loves the challenge and presumably can afford it.

Just last month the 13-unit Houston hot-dog and chili chain James Coney Island (perhaps an adaptation of Nathan's, which originally started in Coney Island, Brooklyn, N.Y.) took the Chapter 11 route. The owners of the 66-year-old chain blamed the problems on their own poor investments. But certainly the declining Houston economy had something to do with it.

Nor are independent restaurants immune. In fact, they are more vulnerable. In recent weeks at least two New York City standbys, Joe's Pier 52 seafood restaurant on West 52nd Street and the "healthy foods" Beanstalk restaurant at the McGraw-Hill Building, filed for reorganization.

Major factors in the apparent demise of these and other restaurants are the high cost of real estate and the need to generate bigger volumes even while restaurants are saturating these areas and traffic is flat or down.

Actually, the number of Chapter 11 filings and straight bankruptcies are not conclusively indicative of the problem's scope. For each filing, 10 restaurants merely close their doors without bothering to publicly certify that fact. We may not be aware of the situation until a new restaurant sign goes up at the site.

What happens in New York City is by no means typical of the situation in the rest of the country. But these things are occurring in other cities, albeit on a smaller scale.

Among notable Chapter 11s have been Nashville-based Southern Hospitality Corp., a 25-unit Wendy's franchisee that had previously been a franchisee for other chains, and Specialty Retail Concepts, Winston-Salem, N.C., a group of retail-restaurant operations such as Chez Chocolat, Coffee, Tea and Thee, and Tin Can Alley; and Twistee Treat, a 45-unit Ft. Myers, Fla., ice-cream chain.

Also, Rian's Inc., a group of Portland, Ore., restaurants that once prospered under John Rian but encountered tougher competition in recent years; Convenient Food Mart, a Chicago-based convenience-store chain that had increasingly moved into food service under Stanley Bresler but stumbled under new management this year; and J. Bildner & Sons, a Boston area gourmet food shop that sought to jump into the gourmet take-out business.

Overfranchising and loss of controls often lead to these problems. The reality is that operators facing difficulties desperately need a more disciplined management that will concentrate on food, service, operations and marketing and eschew the side temptations.

LETTERS

Operator happy to be part of MUFSO '89

Editor, NRN:

Just a brief note to thank you for allowing me to participate in the MUFSO operators panel. It is always an honor to be on these panels and serve with such distinguished people as I have in the past. I hope my insights have added something to the conference.

Being responsible for the Perkins' franchise conference for the last four years, I can truly appreciate the energy and dedication that goes into putting together a convention the size of MUFSO.

Again, I sincerely appreciate being part of a successful MUFSO 1989.

— Patrick A. Morris
executive vice president, marketing
Perkins Family Restaurants
Memphis, Tenn.

MUFSO again provides 'rewarding' experience

Editor, NRN:

I want to tell you that your MUFSO conference was excellent. The other representatives of our company and I found it to be informative and, once again, rewarding.

I congratulate you and your colleagues for putting together the most meaningful conference that our industry offers.

— Robert P. Flack
Sonic Industries Inc.
Oklahoma City

New Orleans operator enjoys MUFSO visit

Editor, NRN:

Thank you for bringing MUFSO to New Orleans. It was wonderful to have the industry people visit our city. I think the convention was a great success and very informative for all involved.

I hope to see you again in the near future.

— Ella Brennan
Commander's Palace
New Orleans

FSCSI looks ahead to 35th anniversary

Editor, NRN:

How pleased I was that you devoted several column inches in your Sept. 18 issue to our 1989 Fall Seminar and the featured speakers.

We really appreciate such coverage. As more exciting things develop in the next months and years, we'll be telling you about them. For example, we'll be celebrating our 35th anniversary in Chicago next May, and we'll have our first full-blown seminar ever held in New York, next November.

— C. Russell Nickel
executive vice president
Foodservice Consultants Society International
Seattle

Subway offers customers box-recycling incentives

Editor, NRN:

I finished reading your article on the garbage crisis. You might like to know that we're having our manufacturers pack Subway products in boxes with special labeling so we can use them for large carryout orders.

By giving our customers a discount on their next purchase we then encourage them to recycle the boxes.

— Frederick A. DeLuca
president
Subway Sandwiches and Salads
Milford, Conn.

Nation's Restaurant News welcomes letters on timely topics. All letters may be edited for reasons of space or clarity. NRN cannot consider unsigned letters, but will withhold names on request. Letters should be addressed: Editor, Nation's Restaurant News, 425 Park Ave., New York, N.Y. 10022.